

U.S. Equity Fund Performance

During most of September, U.S. equities rallied strongly on the reduction of geopolitical tensions and the absence of any action by the Federal Reserve to begin tapering its quantitative easing program. While the renewal of the government shutdown/debt ceiling crisis towards the end of the month caused some pullback in the equity markets, on balance, U.S. equities registered solid monthly gains.

In September, the S&P 500 Index advanced 3.1%. The other indices we track appreciated at higher rates of 5.1% for the NASDAQ Composite, 5.2% for the S&P 400 MidCap, and 6.2% for the S&P 600 SmallCap. The North Growth U.S. Equity Fund gained 4.5% for the month, outperforming the S&P 500 but lagging the other indices. As the Canadian currency strengthened in September, the Fund was up 2.3% in Canadian dollars versus the S&P 500 which appreciated 0.9% in Canadian dollars.

Canadian Equity Fund

Canadian equities continued their rally, rising 1.4% in September. This is the first 3 consecutive months of gains for Canadian equities in 2013 for a 3-month gain of 6.3%. The Canadian Equity Fund outperformed in September, rising 5.9%. And despite underperforming for the prior two months, the Fund outperformed over the 3-month period with a gain of 7.3%. Year-to-date, the Fund is up 32.4% and over the last year the Fund is up 39.7%. These returns compare very favourably to the S&P/TSX Composite Index which is up 5.3% year-to-date and up 7.1% over the last year. Some investors are surprised by this outperformance but fundamentally it should not be surprising. Our research process is driven from our research for the U.S. Equity Fund and we do not think of the Canadian Equity Fund as a mirror of the S&P/TSX Index. Given that U.S. equities have posted strong gains over the last year (and longer), the Canadian Equity Fund is clearly benefitting from this shared philosophy and research effort.

Noise, noise and more noise...

In September, investors were cheered by the diplomatic solution to the Syrian conflict as well as the announcement by the Federal Reserve on September 18th that the U.S. central bank would continue purchasing debt at the existing pace of \$85 billion per month. As the equity markets had factored in the possibility of a U.S.-led military strike on Syria and widely anticipated the Fed tapering its bond purchases following the FOMC (Federal Open Market Committee) September meeting, the favourable alternative outcomes propelled stocks higher.

Near the end of the month, it became increasingly clear that the U.S. Congress would not authorize government spending for the new fiscal year starting on October 1st, and consequently the United States has been in a partial shutdown since then. The government shutdown's direct impact on fourth quarter economic growth is estimated by most economists to be negative 0.1% to 0.2% per week, assuming that the shutdown will be relatively short in duration.

Much more damaging to the U.S. and global economy is if Washington's partisan bickering results in a failure to raise the debt ceiling before U.S. borrowing authority lapses on October 17th. This would put the United States in a technical default on its debt obligations and the consequences are dire.

We have witnessed this self-induced U.S. fiscal crisis before over the past several years and believe the latest rehash of the political circus will end in the same fashion as the previous battles—Washington will ultimately avoid the calamity of default, keeping the United States credible and solvent.

In the current episode of government dysfunction, there is a two-step process that would allow President Obama to unilaterally extend the debt limit. Known as the "McConnell Rule", proposed by Senate Republican Leader, Mitch McConnell, in the eleventh-hour resolution of the debt ceiling crisis in 2011, the president has the ability to raise the debt ceiling on his own authority subject to a vote of disapproval in Congress that the president could then veto, provided it fell short of the veto-proof 2/3 majority. Under such a scenario, the U.S. government's borrowing limit would rise without any lawmaker having to cast an affirmative vote.

After all is said and done, the uncertainty created by the shutdown and recurrent debt ceiling crisis will likely dampen near term economic growth and investor confidence, and contribute to a spike in market volatility.

Our Canadian campaign

We continue to be on a campaign to increase the number of unitholders in the Canadian Fund. For the time being, we are permitting existing direct clients who are B.C. residents or Accredited Investors to invest at a \$5,000 minimum. The minimum investment for our new direct clients continues to be \$150,000 which may be split between our Funds based on the availability of prospectus exemptions.

NORTH GROWTH U.S. EQUITY FUND

Short Term Rates of Return (%) for Periods Ending September 30, 2013

| | 1 Month | 3 Months | 6 Months | YTD |
|---------------------------------|-------------|-------------|--------------|--------------|
| NGM US Equity Fund \$CDN | 2.28 | 4.91 | 14.25 | 29.42 |
| S&P 500 \$CDN | 0.91 | 3.09 | 9.84 | 24.06 |
| NGM US Equity Fund \$US | 4.53 | 7.09 | 12.66 | 24.98 |
| S&P 500 \$US | 3.14 | 5.24 | 8.31 | 19.79 |
| S&P 400 MidCap \$US | 5.21 | 7.54 | 8.62 | 23.23 |
| S&P 600 SmallCap \$US | 6.23 | 10.73 | 15.07 | 28.66 |
| NASDAQ Composite \$US | 5.14 | 11.20 | 16.22 | 26.11 |

NORTH GROWTH U.S. EQUITY FUND

Annualized Rates of Return (%) for Periods Ending September 30, 2013

| | 1 Year | 3 Years | 5 Years | 10 Years | 15 Years | 20 Years |
|---------------------------------|--------------|--------------|--------------|-------------|--------------|--------------|
| NGM US Equity Fund \$CDN | 27.67 | 13.80 | 11.92 | 6.25 | 9.94 | 10.99 |
| S&P 500 \$CDN | 25.06 | 16.31 | 9.31 | 4.70 | 2.58 | 7.40 |
| NGM US Equity Fund \$US | 21.84 | 13.75 | 12.65 | 9.16 | 12.88 | 12.43 |
| S&P 500 \$US | 19.34 | 16.27 | 10.02 | 7.57 | 5.33 | 8.80 |
| S&P 400 MidCap \$US | 27.68 | 17.45 | 13.08 | 10.84 | 11.21 | 11.83 |
| S&P 600 SmallCap \$US | 31.51 | 20.68 | 12.40 | 11.14 | 10.83 | 10.61 |
| NASDAQ Composite \$US | 22.99 | 18.26 | 13.85 | 8.94 | 6.37 | 8.31* |

Source: Bloomberg "Total Return Analysis" as of October 1, 2013.

*These returns are a simple price appreciation because total return data is not available on Bloomberg.

Unit Price: \$32.87 CDN
\$31.90 US

Total Assets in Fund: \$313.8 Million CDN

NORTH GROWTH CANADIAN EQUITY FUND

Short Term Rates of Return (%) for Periods Ending September 30, 2013

| | 1 Month | 3 Months | 6 Months | YTD |
|---------------------------------|-------------|-------------|--------------|--------------|
| NGM Canadian Equity Fund | 5.91 | 7.28 | 15.58 | 32.42 |
| S&P / TSX \$CDN | 1.40 | 6.25 | 1.91 | 5.31 |

NORTH GROWTH CANADIAN EQUITY FUND

Annualized Rates of Return (%) for Periods Ending September 30, 2013

| | 1 Year | 3 Years | 5 Years | 10 Years |
|---------------------------------|--------------|------------|------------|------------|
| NGM Canadian Equity Fund | 39.74 | N/A | N/A | N/A |
| S&P / TSX \$CDN | 7.12 | N/A | N/A | N/A |

Unit Price: \$ 17.68 CDN

Total Assets in Fund: \$ 30.9 Million CDN

NORTH GROWTH CANADIAN MONEY MARKET FUND
Annualized Rates of Returns (%) for Periods Ending September 30, 2013

| | *CURRENT YIELD | 1 Year | 3 Years | 5 Years |
|----------------------------------|-------------------|-------------|-------------|-------------|
| NGM CDN Money Market Fund | 0.87 | 0.87 | 0.84 | 0.72 |
| 30 Day T-Bill | N/A | 0.95 | 0.91 | 0.77 |

** The Current Yield for the Money Market Fund is the average of the annualized daily yield for the most recent seven day period. This measure is no longer available for the 30 day T-Bill Index.*

We take a very simple approach to managing the North Growth Canadian Money Market Fund. We invest in a portfolio of high quality short term bonds. The average maturity of the portfolio never is greater than 30 days. Historically the Fund has generated very competitive yields with this simple approach because the management fee is, and always has been, 0.25%. In today's low rate environment most other money market funds in Canada have cut their management fees and extended their maturities in order to improve yields, as a result the North Growth Canadian Money Market Fund's yields are now below the industry average.

We manage the portfolio to ensure high liquidity and have no intention to extend maturities in order to chase a few basis points and we do not have any room to reduce our management fees because we already take a loss on the product. We still believe our money market fund has superior liquidity characteristics due to its very low average maturity but our current yield is 0.87% which is lower than many other mainstream money market funds and even short term GICs at top tier Canadian banks.

The North Growth Canadian Money Market Fund's yield will quickly rise in response to any future increase in the Bank of Canada's overnight rate but its yield will not become competitive again unless other money market funds begin to increase their management fees back to their historic levels.

U.S. EQUITY FUND
As of September 30, 2013

| | % |
|---------------------------------|--------------------|
| Cisco Systems Inc. | 10.11 |
| Apple Inc. | 8.66 |
| Intel Corporation | 4.99 |
| St. Jude Medical Inc. | 4.58 |
| Microsoft Corporation | 4.08 |
| Bristol-Myers Squibb Company | 3.79 |
| Wellpoint Inc. | 3.72 |
| Texas Instruments Inc. | 3.66 |
| Safeway Inc. | 3.60 |
| Citrix Systems Inc. | 3.59 |
| Pier 1 Imports Inc. | 3.50 |
| Cerner Corporation | 3.45 |
| Electronic Arts Inc. | 3.10 |
| Pfizer Inc. | 3.09 |
| Zimmer Holdings Inc. | 2.96 |
| Precision Castparts Corp. | 2.85 |
| Gilead Sciences Inc. | 2.79 |
| Herman Miller Inc. | 2.73 |
| Rite Aid Corporation | 2.29 |
| GT Advanced Technologies Inc. | 2.26 |
| Varian Medical Systems Inc. | 2.20 |
| DSP Group Inc. | 2.03 |
| Jacobs Engineering Group Inc... | 1.78 |
| Gap Inc. | 1.65 |
| Amgen Inc. | 1.57 |
| Ethan Allen Interiors Inc. | 1.38 |
| Citigroup Inc. | 1.38 |
| Applied Materials Inc. | 1.26 |
| Johnson Controls Inc. | 1.22 |
| American Eagle Outfitters Inc. | 1.11 |
| Cheesecake Factory Inc. | 1.08 |
| Itron Inc. | 0.43 |
| Savient Pharmaceuticals Inc. | 0.41 |
| Total Equities | 97.29 |
| Cash | <u>2.71</u> |
| TOTAL ASSETS | 100.00 |

CANADIAN EQUITY FUND
As of September 30, 2013

| | % |
|---|--------------------|
| Sierra Wireless Inc. | 8.21 |
| Sandvine Corporation | 8.05 |
| Bombardier Inc., Class B | 7.83 |
| Celestica Inc. | 7.35 |
| WestJet Airlines Ltd. | 5.78 |
| ATS Automation Tooling Systems Inc. | 5.69 |
| COM DEV International Ltd. | 5.05 |
| Open Text Corporation | 4.86 |
| CAE Inc. | 4.48 |
| Exfo Inc. | 4.41 |
| MacDonald, Dettwiler and Associates Ltd. | 4.29 |
| Valeant Pharmaceuticals International, Inc. | 4.17 |
| Dorel Industries Inc., Class B | 3.95 |
| Jean Coutu Group (PJC) Inc., Class A | 3.36 |
| Ballard Power Systems Inc. | 3.05 |
| GSI Group Inc. | 2.81 |
| Stantec Inc. | 2.73 |
| Martinrea International Inc. | 2.62 |
| Saputo Inc. | 2.06 |
| TELUS Corporation | 1.88 |
| QLT Inc. | 1.66 |
| Heroux-Devtek Inc. | 1.53 |
| Imris Inc. | 1.15 |
| Total Equities | 96.99 |
| Cash | <u>3.01</u> |
| TOTAL ASSETS | 100.00 |

INVESTING WITH NORTH GROWTH MANAGEMENT:

North Growth Management is a focused firm. We are Canada's U.S. Equity Specialist. Our objective is consistent, superior, long term returns on our equity funds based on our "growth at a reasonable price" investment philosophy.

CONDUCTING TRANSACTIONS:

The cut-off time for same-day transactions is 4 p.m. Eastern time or 1 p.m. Pacific time. Orders received after that time will be processed on the next business day. Cheques must be made payable to **RBC Investor Services Trust**. For security reasons, instructions can only be accepted by mail or by fax to:

North Growth Management Ltd.
Suite 830, One Bentall Centre
505 Burrard Street, Box 56
Vancouver, BC V7X 1M4

Fax: 604-688-5402

WHERE TO FIND NGM FUND PRICES

Please visit www.northgrowth.com to view the Fund's daily prices or to be added to our e-mail list to receive daily notification of the Fund's prices. Alternatively, the Globe & Mail reports prices on www.globefund.com.